

J.C. PENNEY COMPANY
A DELAWARE CORPORATION

*Operating
Fifteen Hundred
Thirty Nine Stores*

FINANCIAL STATEMENT

December 31, 1938

February 28, 1939

TO THE STOCKHOLDERS OF
J. C. PENNEY COMPANY:

It is my privilege to present to you the December 31, 1938 Balance Sheet and supporting statements of J. C. Penney Company and its wholly owned subsidiaries. The position as shown by the figures gives continued evidence as to the company's stability and financial security.

The current assets, as will be noted from the Balance Sheet, show a ratio to current liabilities in excess of 5 to 1. The merchandise inventory is soundly and conservatively in line with immediate prospects. It is felt that the cash account of the company represents an ample additional working reserve to meet those trading peaks usual to the retail business.

As is generally recognized, the cautiousness and hesitancy of business during 1938 contributed operating problems that resulted in narrowing of profit margins largely through shrinking sales volume and adjustment of price levels. Making allowance for such factors, I feel sure the results of the year's operations will prove a source of satisfaction to those interested in the company.

Net income amounted to \$13,739,160.40, equivalent to \$5.40 on each of the company's 2,543,984 shares outstanding at the year-end.

This compares with \$16,575,164.09, or \$6.52 a share for the prior year of 1937.

Sales for 1938 totaled \$257,963,945.53. While this represented a reduction of 6.32% from the total of 1937, our peak year, it approximated the total of the next highest year, or 1936. With a considerable volume of business normally coming from what proved during 1938 to be severely depressed industrial towns and regions, the total that was attained is, in the management's opinion, a creditable acceptance by consumers of the company's offerings.

Taxes continued to present a growing burden. This development, of course, is being experienced by practically all branches of industry. Some discriminatory chain store taxes were absorbed. In that con-

nection a word of comment is desirable. The proposal for the imposition of Federal discriminatory taxation seems to have focused the attention of a broader portion of the people on the question, which apparently has had a wholesome effect. More interest is being expressed by manufacturers, newspapers, far-sighted retailers, landlords and, most important, the consumers. If the trend of public opinion, as evidenced by recent polls, continues, it seems likely that there will be further lessening of attempts at such definitely unhealthful legislation.

The total number of stores in operation at the year-end was 1539, which represents a net increase over the prior year-end of 16. The management entertains no immediate plans for any broad expansion of number of units to be operated. It is expected that such expansion as is experienced will result from individual opportunities to enjoy sound operating advantages.

During 1938 the company paid total dividends of \$4.25 per share made up of regular dividends of \$1.00 for the first quarter and \$.75 for each of the others, with an extra dividend at the year-end of \$1.00.

For 1939 the management intends to continue concentration of its efforts toward development and refinement of its distributing functions with a view to serving its customers as efficiently and economically as possible. Immediate conditions shape up as advantageous to successful operation. While longer term prospects may be somewhat obscured, it is felt that, with the company's financial position, with its personnel, and with its flexibility of position and lines handled, the future can be faced with confidence.

For the stockholders and directors, I wish to express again to all company associates appreciation of their efforts and loyalty. It has been and will continue to be the policy of the company to reward its associates to the degree that the circumstances permit. We feel sure that such efforts and loyalty will continue and that we will be able to go forward together in the future as in the past.

Respectfully submitted,

E. C. SAMS, President

J. C. PENNEY

A DELAWARE CO

BALANCE

As at Decemb

ASSETS

Current Assets:

Cash in Banks and on Hand	\$ 19,938,748.12*
Accounts Receivable — Trade and Miscellaneous	228,299.93
Merchandise, at the lower of cost or market (determined by responsible officials on the basis of physical inventories)	49,216,747.85
Total Current Assets	<u>69,383,795.90</u>

Investments in and Advances to Subsidiary Companies (including undistributed surplus) — at amounts as shown by Subsidiaries' Balance Sheets:

Advances	\$ 4,845,000.00	
Capital Stock and Surplus	<u>373,720.26</u>	5,218,720.26

Mortgages Receivable		107,421.04
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Fixed Assets — at not sound values based on estimated replacement cost at December 31, 1932, plus subsequent additions at cost:

Land and Buildings	2,220,807.71
Less Reserve for Depreciation	<u>302,212.55</u>
	1,918,595.16

Furniture and Fixtures, less Provision for Depreciation	6,741,951.66
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Improvements to Leaseholds, less Amortization	<u>1,759,349.00</u>	10,419,895.82
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Deferred Charges — Unexpired Insurance Premiums, Rent Advances, Etc.		586,101.91
		<u>\$ 85,715,934.93</u>

NOTE: *After deducting employees' contract compensation due at December 31, 1938 but not

COMPANY

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er 31, 1938.

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities	\$ 9,942,391.70
Provision for Federal Income Tax	2,862,183.14
Total Current Liabilities	<u>12,804,574.84</u>

Reserve for Fire Losses, Etc., and Employees'
Death Benefits

2,126,556.76

Common Stock, no par:

Authorized, 3,000,000 shares.

Issued, 2,543,984 shares

28,122,766.67

Surplus (Earned):

J. C. Penney Company

Undistributed Surplus of Subsidiaries

\$ 42,338,316.40

323,720.26

42,662,036.66

\$ 85,715,934.93

id subsequently thereto.

J. C. PENNEY COMPANY

Profit and Loss Account For the Year Ended December 31, 1938.

(Including Profits of Subsidiaries)

Sales		\$ 257,963,945.53
Cost of Merchandise Sold, and Selling and General Expenses (exclusive of items specifically set forth below)	\$ 237,266,073.82	
Maintenance and Repairs	463,948.73	
Depreciation and Amortization (based on December 31, 1932 reduced book value or cost if acquired subsequently)	1,187,340.60	
Taxes, other than Federal Income Tax	3,426,636.46	242,343,999.61
		<u>15,619,945.92</u>
Discount on Purchases, Interest Received and Miscellaneous Income (Net)		853,823.58
Net Profit before Provision for Federal Income Tax		16,473,769.50
Provision for Federal Income Tax		2,862,183.14
		<u>13,611,586.36</u>
Add 1938 Profits of Subsidiaries		127,574.04
Transferred to Surplus		<u>\$ 13,739,160.40*</u>

Note:

*Net Income, as above	\$ 13,739,160.40
Common Stock issued at end of year	Shares <u>2,543,984</u>
Earnings per share of Common Stock, as above	<u>\$ 5.40</u>

EARNED SURPLUS ACCOUNT

Surplus at December 31, 1937	\$ 39,862,826.34
Deduct Adjustment of prior years' Federal Taxes on Income	<u>128,018.08</u>
	39,734,808.26
Add Net Income for 1938	<u>13,739,160.40</u>
	53,473,968.66
Less Cash Dividends:	
Common Stock	<u>10,811,932.00</u>
Surplus at December 31, 1938	<u>\$ 42,662,036.66</u>

To the Directors of the
J. C. Penney Company,
New York, N. Y.

We have made an examination of the Balance Sheet of the J. C. Penney Company as at December 31, 1938, and of the Profit and Loss and Surplus Accounts for the year 1938. In connection therewith, we examined or tested accounting records of the Company and other supporting evidence and obtained information and explanations from officers and employees of the Company; we also made a general review of the accounting methods and of the operating and income accounts for the year, but we did not make a detailed audit of the transactions.

In our opinion, based upon such examination, the accompanying Balance Sheet and related Profit and Loss and Surplus Accounts fairly present, in accordance with accepted principles of accounting consistently maintained by the Company during the year under review, its position at December 31, 1938, and the results of its operations for the year.

PEAT, MARWICK, MITCHELL & CO.

New York, N. Y.,
February 28, 1939.

O F F I C E R S

J. C. PENNEY

Chairman of the Board

E. C. SAMS	President
A. W. HUGHES	Vice-President
W. A. REYNOLDS	2nd Vice-President
J. I. H. HERBERT	3rd Vice-President and Treasurer
A. J. RASKOPF	Secretary
R. W. TROWN	Comptroller

D I R E C T O R S

J. C. PENNEY, Chairman

E. C. SAMS	G. H. CROCKER
GEO. H. BUSHNELL	W. A. REYNOLDS
J. I. H. HERBERT	EARL A. ROSS
L. W. HYER	A. W. HUGHES
LEW V. DAY	F. W. BINZEN